SOUTHERN AFRICA INTERNATIONAL BUSINESS LINKAGES PROGRAMME (SAIBL)

PROMOTION OF EXPORTS OF SOUTH AFRICAN HDEs PRODUCTS TO THE REGION
THE CASE OF MOZAMBIQUE

FINAL REPORT FOR

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List of Acronyms

CIF	Cost Insurance and Freight
CPI	Centro de Promoção de Investimento – Investment Promotion Agency
DEI	Duty Exemption on Inputs
DU	Documento Único – Single Administrative Document
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
INE	Instituto Nacional de Estatística – National Institute of Statistic
MNF	Most Favored Nation
MZM	Mozambican Metical (Mozambican Currency)
NTBs	Non Tariff Barriers
PSI	Post Shipment Inspection
SADC	Southern Africa Development Community
SMEs	Small and Medium Enterprises
TBs	Tariff Barriers
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization

2. Executive Summary

This report was based on official documentation and desk review only. The information was gathered using the official statistics, reports and customs database. In the mean time, the INE, CPI, Customs and South Africa – Mozambique Industrial and Commercial Chamber, were contacted in this regard.

Based in 1999-2002 and 2002-2004 imports to Mozambique, we concluded that the main were metals, transportation equipment, fuel, machinery, Iron and Steel, rice, plastics, wood and paper products, wheat, pharmaceutics and textiles. The power, diesel, transport equipment, frozen fish, cement, extracts & scents, construction structures, fertilizers, wheat and sugar are the main imports from South Africa.These products are imported by industrial sector, retail or commercial sector and service sectors.

Taking into account the structure and dynamics of the economy, we realise that there are many opportunities for imports from South Africa, because (i) Mozambique does not produce a lot of its inputs, and the economic growth is being supported by imports, (ii) the South African products are reliable and accessible in price (geographical location advantages), (iii) South Africa is heading the foreign direct investment in Mozambique and a lot of Mega projects tend to be supplied by SA firms.

1. Introduction

Over the past 5 years, the Mozambican real Gross Domestic Product (GDP) has been growing at an annual average rate of 12% (Table A), and real per capita has grown at an annual average of 3%. The rate of inflation has slow down considerately from 57% in 1995 to less than 10% in 2003.

This brief overview of Mozambican Economy shows clearly its stability and great perspective of a persistent growth. Despite the growth of the economy, Mozambique still imports (mainly from South Africa) much more than its export resulting in Current Account deficit of almost USD 600 millions between 1997 and 2003.

In the mean time, guided by this economic environment, this report aims at presenting the intelligence gathered[1] in search of information that will allow a promotion of exports of South African to Mozambique under quasi-perfect information.

This research was requested by ECI Africa Consulting (Pty) Ltd which in partnership with Corporate Council on Africa is managing the Southern Africa International Business Programme (SABL). The main objective of the project is to promote exports from South Africa by HDEs (historically disadvantaged entrepreneurs) to the region (SADC) and in this case to Mozambique.

After the summary that follows this section, we will (i) identify and analysis the key sectors and sub-sectors of the economy, (ii) provide a list of key products and services imported into Mozambique, (iii) high light sectors/ sub-sectors with potential for

[1] See our "Quotation for ECI Africa", where we interpret and comment the Terms of Reference - TORs for this assignment

growth and minimal barriers for entry by SMEs, (iv) identify trade barriers per sector, (v) provide a list of main South African companies doing business in Mozambique and finally (vi) present some concluding remarks and recommendations.

3. Key Sectors and Sub-sectors of the Economy

The key sectors of economy (including, growing sector/ sub sector and growth rates) and data from 1999 to 2003 are presented in Tables B-1, B-2 and A-3 (as summary and sorted from higher to lower percentage) and the sub-sectors in Tables C-1, C-2 and C-3 (in details).

The data shows that in average the Electricity and Water has the fastest growth and Fishing the lowest in terms of quantity. In value (the most important for analysis) we have the Health sector and Services to private sector, respectively.

In the Electricity and Water sector, the electricity sub-sector has an average growth of 20.9% while water grows at 15.6%.

Looking only the sectors that potentially should attract imports from SMEs operating outside Mozambique, in terms of value we note (in decreasing order of growth), Transports and Communications, Trade, Restaurants and hotels, Building, Agriculture, Cattle-raising and Forest, Manufacturing, Hiring and Fishing.

In the Agriculture, Cattle-raising and Forest sector, we can see that Forest sub-sector is the most important, growing at 16.8% if compared with Agriculture (7.6%) and Cattle-raising (7.4%).

In terms of sectoral share to GDP, the top five important sectors are Agriculture, Cattle-raising and Forest, Trade, Manufacturing, Transport and Communications and Building.

In the Agriculture, Cattle-raising and Forest sector, the Agriculture sub-sector is the highest contributor to the total GDP (21.3%), while Forest sub-sector contributes in 2.4% and Cattle-raising 1.9%.

In the Electricity and Water sector, the electricity sub-sector has the most important contribution to GDP (2.8%) while water counts only for 0.2%.

4. List of Key products and services imported into Mozambique

More than 25% of Mozambican’s trade – imports as well as exports – are destined for or originate in SADC countries. South Africa accounts for the largest share, about 25% of Mozambican’s imports and 20% of its exports. In terms of the countries of origin, South Africa heads the top 10 countries of origin every year, among United States, India, Portugal, China, German, France, Japan, Spain, Italy, Great Britain and Australia (that has been disputing different positions).

Though to the time needed to extract data from the Customs Office Data Base and the complexity of the process, it was provided data of 2002, 2003 and 2004, with the name of imported products, value (MZM), quantity, country of origin and the name of importing firms (Tables D2.1, D2.2, D2.3 and D2.4 – Summary in value and quantity). Further research was made to get the contact details, which are presented in the Table D2.5[2].

Using other sources, we present the Table D1, with information on Mozambican key imports from 1999-2002, only in value (USD Millions). The exchange rates from 1999-2004 are presented in the Table A. Based in the annual average of imports value, the top 10 imports were highlighted both in the summary (table D2.4) and in the table D1 of 1999-2002 imports[3].

According to the National Institute of Statistics (INE) and National Customs Statistic, the recorded top products imported from the SADC countries during 2000-2003, sorted by decreasing order of value, are detailed in Table D2.6. According to this table, power, diesel, transport equipment, frozen fish, cement, extracts & scents, construction structures, fertilizers, wheat and Sugar are the main imports from South Africa.

In summary, the main imports into the country are metals, transportation equipment, fuel, machinery, Iron and Steel, rice, plastics, wood and paper products, wheat, pharmaceutics and textiles.

5. High lighten sectors/ sub-sectors with potential for growth and minimal barriers for entry by SMEs

Based in analysis of the trends of Mozambican Economy growth, we can say that all sectors and sub-sectors of the economy are growing fast and have minimal barriers for entry by SA SMEs imports, if we take into account the trade liberalization and international trade agreements in which the countries is involved (see the next section – identification of trade berries).

The Mozambican manufacturing industry and many other sectors depend upon imported inputs to operate and the bulk of imports originate from South Africa.

The country has been successful attracting foreign direct investment (FDI) (in Agriculture and Agro-industry, fishing, banking, building, industry and mineral resources), particularly Mega Projects, where South Africa is the leading country, among Great Britain, Portugal, Japan and Ireland. The enterprises with FDI in the country tend to be more supplied by SA enterprises.

[2] It was not possible to find some contacts details of some firms either in importing firms or in SA firms doing business in Mozambique. We have only provided in detail 20 firms contacts for each top 10 imports.

[3] Some words are in Portuguese, we have tried unsuccessfully to find an English version of *pauta*. In the tables supplied in the draft report we have translated only the main chapters of the *pauta*.

The Mega projects (MOZAL, SASOL, Heavy Sands, etc.) operating in the context of FDI are supplied by SMEs that use imported inputs from SA and many SA SMEs has been making Joint Ventures with Mozambican ones to benefit from the outsourcing policy of Mega projects, for example Kempe/Metech that provides pot line maintenance and Interwaste, in charge of industrial waste removal at Mozal.

Finally, a study by CPI (Investment Promotion Agency) has identified among others, the following clusters in Mozambique: aluminum, charcoal, heavy sands, wood, fishing, ports and rail ways, gas, tourism, sugar, cooking oil, tropical fruits, cotton, and flowers. Many of these clusters are being explored already and are expected to largely increase Mozambican imports, the country does not produce many inputs needed to operate these businesses.

The government is giving incentives to enterprises setup in order use the aluminum from MOZAL as row material, CVRD - Moatize (charcoal), CHIBUTO and MOMA heavy sands, Maputo, Beira and Nacala Development Corridors, SASOL Pipeline (gas), Chinavane and Mafambisse Sugar Estates, etc.

Mozambique does not produce many of its inputs, although many investments are taking place (mainly in form of Foreign Direct Investment, where South Africa is the biggest investor). So, these clusters are now being explored by national and foreign investors, meaning that these will increase the Mozambican imports, particularly from South Africa.

Finally, a structure of low tariffs on raw materials and intermediate goods that are inputs to production provides effective protection to final goods. These inputs include, most processed agricultural products, paint, matches, tableware and utensils of all materials, leather bags, cast metal products, and plastic goods (refer to the table E – tariffs by sector and F1-seccion 6.3.2).

Many agricultural products including virtually all meat, dairy, and fruit and vegetable products are also charged the consumer good rate of 25% (The most high import duty). Except cereals such as wheat, maize, and rice, which attract a tariff of 2.5%.

6. Identification of trade barriers per sector

6.1 General Features of Trade Policy

Following its independence in 1975, Mozambique implemented a socialist model of economic development that resulted in centralizing government control of the economy, including banking and agriculture. The failure of this strategy became apparent as the economy stagnated and suffered significant setbacks. In the late 1980s, Mozambique embarked on a programme of economic reform, but progress was slow until after the end of the civil war in 1992. Since the mid 1990s, the pace of reform has accelerated, and Mozambique has focused on macroeconomic stabilization and fiscal reform supported by international financial institutions.

Mozambique's main trading partners are South Africa, the European Union, Japan, and Zimbabwe. Mozambique's exports are primarily agricultural commodities, especially food products, such as non-frozen crustaceans, and fresh and dried nuts. Transportation equipment, machinery, mineral products, and foodstuffs constitute the major imported products. Due to climatic conditions, domestic agricultural production has decreased during the past few years, causing sharp increases of food imports.

Mozambique became a member of the WTO on 26 August 1996. Mozambique grants at least MFN treatment to all its trading partners. As with other WTO Members, Mozambique has adopted the results of the Uruguay Round in their entirety. As a least developed country, Mozambique benefits from the special and differential treatment afforded developing countries in the form of exemptions or delayed implementation of certain provisions.

Mozambique is a member of the Southern African Development Community (SADC), and the Cross-Border Initiative (CBI). Under the Cotonou Agreement (successor to the Lomé Convention), Mozambique receives aid made available to ACP countries by the European Union, and non-reciprocal preferential treatment in the form of exemption from import duties for certain exports. Likewise, Mozambique's exports enjoy non-reciprocal preferential access to the markets of other developed countries through the Generalized System of Preferences.

Mozambique has undertaken important reforms since 1987 – and at a more accelerated pace in the past few years. The reforms have resulted in a significantly liberalized trade regime that is essentially based on tariffs.

6.2 Tariffs and Duties

Mozambique has recently simplified the structure of its customs duties; the tariff rates currently range from 0 to 25%. The tariff structure is modestly escalatory. The simple average applied Most-favored-nation (MFN) tariff is 13.8%, among the lowest import duties in southern Africa. In 1999, Mozambique introduced a 17% value-added tax (VAT). The Government expects the VAT to improve public revenue; this will facilitate a future reduction of the maximum tariff to 20%.

Most Favored Nation (MFN) tariff bindings

Under its Uruguay Round commitments, Mozambique bound tariffs on all agricultural products at a ceiling rate of 100%. Tariff bindings on non-agricultural products are very limited; only 17 lines (out of a total of 4,417) at the harmonized system (HS) eight-digit level were bound at either 5% or 15%. (See the Table E1 - Tariffs reduction after Uruguay Round)

Registration and documentation requirements

In 1998, Mozambique simplified its existing export and import procedures, eliminating the need for prior licenses. Currently, an importer needs only to be registered as a company with the Ministry of Trade and Industry. An import registration is required annually, exclusively for tax and statistical purposes.

Once registered, the importer is authorized to deal directly with Customs. The same is true for exporters, but renewal of registration is required only every five years.

With the elimination of prior licenses and the gradual reduction of pre-shipment inspection (PSI) requirements, a system of customs pre-declaration was put into place. Customs pre-declaration is accomplished through the Single Administrative Document (Documento Único, or DU), based on the system used within the European Union. The pre-declaration must be filed before goods are shipped.

Once the pre-declaration is filed, Customs runs a computerized risk analysis to determine whether a PSI is necessary. At the same time, Customs receives a 15% advance, as a deposit against the eventual duty (to cover the Government's and the PSI company's expenses), as well as an administrative charge of US$50 (per bill of entry) on exempted products. At this time, Customs fixes the exchange rate for the transaction.

Inspection, customs valuation, and customs clearance

Since 1997, PSI has been progressively reduced, so that only about 30% of imports undergo PSI. PSI is now conceived as an aid to customs work, rather than an autonomous act. With the strengthening of the customs system, PSI will cease to be carried out systematically. Mozambique's policy is to continue to reduce PSI. An important change since 1997 has been the establishment of post-shipment inspection. Since 1996, post-shipping inspection, as well as PSI, is handled by the United Kingdom-based company, Intertek Testing Services (ITS), chosen by international tender.

Usually, only items not subject to PSI are subjected to post-shipment inspection, unless there are indications the shipment is suspect. The importer (or his agent) must be present at such an inspection, and items are often risk-targeted to determine whether they need to be inspected. This process is constantly being refined to exempt non-suspect goods. Goods that lack documentation are liable for post-shipment inspection and a potential fine of 30% of the c.i.f. value, which may be waived for just cause.

The Customs Department may ask the PSI Company to perform a simple inspection, a basic inspection, or a full inspection. A simple inspection includes verification of tariff classification of the goods to be imported, checking the customs value of the goods, and issuing a certified DU, with all details completed. A full inspection includes verification at the place of production, warehousing, or dispatch of any goods, physical inspection of the quality and quantity of goods declared, possible checking of the commercial, technical, and sanitary quality of the goods, the tariff classification, the sealing of goods in containers, and more.

The normal charges resulting from PSI are assumed by the Government, unless a mistake by the exporter or importer requires a new inspection. Importers, however, are responsible for reimbursing the Government for PSI costs if the inspection uncovers un-importable goods, if the DU is not collected within 60 days, or if the pre-declaration is cancelled, by virtue of the conditions set out in the diploma regulating the clearance of goods. The importer is responsible for informing the exporter of any obligation to submit the goods to PSI.

The following goods are exempt from PSI:

Gold, precious stones, semi-precious stones, works of art, explosives, firearms, munitions and other military articles that are not suited to use by civilians, as long as they are imported by competent authorities, and fireworks, antiquities, live animals, fresh chilled or frozen fruits and vegetables, fish or meat or eggs, scrap metal, electricity, current newspapers and periodicals, household and personal effects, parcel post, unprocessed hides, radioactive and nuclear substances, and commercial samples; and - supplies imported for the use of diplomatic missions, international organizations, governmental organizations, and foreign non-governmental organizations.

For customs evaluation purposes Mozambique uses the Brussels definition of value (BDV). This corresponds to the "normal" price of the goods, i.e., the price which, it is considered, these goods would have been able to fetch in the place and at the time they are declared, on full competition terms, between a buyer and seller who are independent. In accordance with the provisions of Article 20 (special and differential treatment) of the Agreement on Implementation of Article VII of the GATT 1994, Mozambique has postponed the changeover to the transaction value. The current priorities are to modernize and professionalize customs performance, eliminate corruption, and pursue a comprehensive staff training programme; the lack of competent customs officials is a major problem.

6.3 Trade Defense Instruments

Mozambique does not currently have any national legislation on anti-dumping, countervailing, and safeguards measures, although officials indicate that the Government has begun to consider the possibility of introducing measures in the future.

6.3.1 Non Tariff Barriers (NTBs)

Prohibitions, quantitative restrictions, and licensing

Mozambique maintains a very limited number of import restrictions. The restrictions currently in force are retained for reasons of health, morals, or counterfeiting, and include products such as pornography, narcotic drugs, and certain used automobiles older than five years. Specific products subject to special import regulations and licensing include certain medications, arms and explosives, certain used clothes, gold, silver and platinum, certain foreign and domestic currency, and certain used tires.

Government procurement

Mozambique is neither a signatory nor observer to the WTO Pluri-lateral Agreement on Government Procurement. The Ministry of Planning and Finance (MPF) supervises all government procurement activities in Mozambique, either directly or indirectly, through authority deriving from 1997 regulations amending the basic law of 1994. Government procurement activities are subject to one of two procedures: one for large purchases, and another for small purchases.

Large purchases (defined as those over MZM 12 billion or approximately US$750,000) usually involve international funding, and competitive international tenders are the norm. The procurement regulations of the donor organization are followed. Competitors for these can be either domestic or foreign firms, and representation or registration in Mozambique is not a requirement to bid. No preferences are given to national firms, but there is a 10% preference for "national products", i.e. products whose final processing takes place in Mozambique.

The procedures for small purchases are more complex. There is a permanent Commission in the MPF comprising representatives from all ministries. Similar commissions operate in provincial governments. Each year, after public tenders, the Commission publishes a list of prices and accepted bidders for each product. The actual procurement is made by the ministry in charge, which has its own Board responsible for procurement.

Competition for procurement of less than about US$750,000 is open only to companies registered in Mozambique, regardless of whether the company is domestic or foreign owned. Companies are also required to be registered with the MPF. As in larger procurement, national products (those whose final processing is in Mozambique) have a 10% preference.

Summary of NTB's in Mozambique

From the desk research carried on, the main categories under which NTB's in Mozambique fell are the following:

- Industrial promotion policies, Fiscal policies and tax system, Trade facilitation procedures – the actual policies and systems originate a kind of protection of national industry, sectors and investors that may create barriers for imports of some products.

- Customs rules and procedures, Pre-shipment and warehousing regulations – these barriers are being gradual reduced, but a lot of requirements and regulations still delay the importing time and increases the cost of transactions. And including, the customs rules and procedures are considered as inefficient, although these are being improved in order to meet the international standards.

- Bureaucracy and corruption – These barriers too, increase the time and cost needed to import a product, particularly corruption that creates a disloyal competition in both sides, exporters and importers.

- Language is not seen as a barrier, because for most people/ staff involved in foreign trade operation has English as their working language.

6.3.2 Tariff Barriers

Through analysis of the tariff's book, *Pauta*, it was clear that tariff barriers are insignificant in Mozambique. If we see Mozambique in the context of SADC Trade Protocol, Cotonou and WTO Agreements the tariffs will reduce to zero percent.

The *Pauta*, was simplified in 1996. Import duties, which are assessed on the basis of cost-insurance-and-freight (CIF), range from 2.5% to 25%, depending on the classification of goods (Table F1). A rate of consumer goods recently dropped from 30% to 25% and is scheduled to drop to 20% in 2006.

Table F1 – Classification of Goods for Import Duties

Product	**Class**	**Rate (%)**
Basic Goods	E	0
Raw Materials	M	2.5
Fuel	N	5
Capital goods	K	5
Intermediate materials	I	7.5
Consumer	C	25

Source: *Pauta*

Mozambique has committed to the rates shown in the table above, as well as the phased reduction to zero, in its SADC tariff schedule. The phase down period ranges from immediate to 15 years for sensitive products imported from South Africa. So far, Mozambique has implemented three stages of its phase down, and thus applies as many as three different duties on a single tariff line – one to MFN suppliers, one to South Africa, and the rest to SADC.

Mozambique's tariff structure is among the more liberal in the region. The average tariff rate is 12.1% and the trade-weighted average is below 9%. About 65% of the lines of products are targeted of rates between of 0% to 7.5% and only 35% a rate of 25% is applied.

A structure of low tariffs on raw materials and intermediate goods that are inputs to production provides effective protection to final goods far in the excess of nominal rates.

Under the *Pauta* many final goods are subject to this type of protection, including most processed agricultural products, paint, matches, tableware and utensils of all materials, leather bags, cast metal products, and plastic goods. Many agricultural products including virtually all meat, dairy, and fruit and vegetable products are also charged the consumer good rate of 25%. Notable exceptions are cereals such as wheat, maize, and rice, which attract a tariff of 2.5%. Only 15% of agricultural lines are subject to rates of 7.5 or 2.5%. These low rates apply to live animals, seeds and bulbs, unrefined vegetable oils, and similar products.

The barriers apply for automobiles (25%), luxury goods (25%), alcoholic beverages (25%), and tobacco products (25%) (excise taxes), sugar (7.5%), cement (7.5%), galvanized steel (7.5%), and certain steel tubes (7.5%) (surcharges in addition to regular tariffs are applied while these domestic industries are in the process of rehabilitation).

Beside the general duties applied to all products, Mozambique has been giving incentive to export-led producers, by promoting Export Processing Zones (EPZs) and Duty Exemption on Inputs (DEI).

The enterprises in these groups are responsible for the most volume of imports in the country, and the incentive consists in duty-free entry of goods in certain approved industries (EPZ) and duty exemption on inputs for manufacturing firms with annual sales of USD 250,000 (textile, clothing, and footwear, food processing, other agro-based industries, metal mechanical, chemical, plastic and rubber).

Many of enterprises benefiting from these incentives in both groups are the leading importers of the country, like ECL Services, Kempe, Bearing Man Mozambique, Cosmos, Kangelo Confeções, Mozal, Moma Heavy Sands, Mabor de Mozambique, Belita Mozambique, Ferpinta, Companhia Industrial da Matola, Fasol, Merec Industries, Socimol, Académica, Multipack, Colgate Palmolive, Unilever, Poliplásticos Lda, etc.

7. Main South African companies doing business in Mozambique

The Customs provided only the names of importing companies. We completed the contacts provided in the report using our Nation Yellow Pages. Some enterprises are not registered there, and the Telecommunication Company informed that wouldn't do much in this regard because they have the same information as the Yellow Pages. So, a more strict and separated research is needed and it involves time and money.

The names, contact details and services or products involved of the main South African companies doing business in Mozambique are presented in the Table G.

It was not easy to find the companies doing business in Mozambique but without offices in the country.

Some SA Companies are included in the list of importing firms, although, in summary, the following are the main products imported by SA Companies: metals, transportation equipment, fuel, machinery and parts, Iron and Steel, computers and accessories, and Furniture and office materials.

8. Conclusions and Recommendations

Due to the limited size of the domestic market, greater penetration of both regional and international export markets represents the best long-term growth prospect for Mozambique's economy. With an increasingly liberal trade regime and prudent exchange rate management, the macroeconomic environment is also conducive to growth.

Practically, all sectors and sectors are growing faster and the potentialities of importing are very high if take into account that the country does not produce most of inputs needed to run many sectors of activity.

As demonstrated in the previous sections, South Africa is heading the Mozambican imports and investment. And in the context of SADC, SA benefits from many regional trade agreements.

In terms of trade berries (both tariff and non tariffs) Mozambique can be classified as with minimal barriers and in about next 5 years will have almost no tariff berries.

All sectors of the economy are likely to be largely supplied by imported goods, particularly from South Africa. As mentioned above, SA SMEs can export easily to Mozambique, mainly the following products: fuel, transport equipment, machinery, mineral products, foodstuffs, frozen fish, cement, extracts & scents, construction structures, fertilizers, wheat and Sugar.

Finally, in order to export to Mozambique the SA SMEs/ HDEs depending on the products or services supplied will need to contact the respective Mozambican importing firms to make the promotion of their products or services (providing prices, quantities and quality information and other advantages of buying on them).

The exporters don't need to register in Mozambique, but they must assure that the importing firm with which they are working is registered. The importer is responsible for informing the exporter of any obligation regarding to their imports. And among others, the following information must be available to the customs: customs value of the good (invoices and receipts), place of production, warehousing, dispatch, quality and quantity declared, including commercial, technical and sanitary quality of goods, etc.

The other way of selling in Mozambique would be by joint ventures with Mozambican SMEs, in order to benefit from providing services to Mega-projects and participate in competition for government and non governmental organizations procurement opened for companies registered in Mozambique.

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